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12 JUL 1961

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MEMORANDUM FOR: Deputy Director of Central Intelligence

SUBJECT: Renegotiation of Hospitalization Contract and Increase in Premium Rates

1. This memorandum contains a recommendation for your approval. Such recommendation is contained in paragraph 7.

2. The GEHA Hospitalization Program under the Federal Employees Health Benefits Act of 1959 has been conducted through a contract with Mutual of Omaha which extends from 10 July 1960 to 31 October 1961. Subject to the approval of the Civil Service Commission a new contract effective 1 November 1961 must be negotiated to continue the hospitalization program. Any adjustments in premiums and benefits in the contract must be made at this time. On the basis of the experience figures compiled by both GEHA and Mutual of Omaha, it is evident that the current premium rates are inadequate to meet the expenses of the program and a premium adjustment must be made for the next insurance year. Civil Service Commission officials have reviewed our program and have informally advised that in their opinion an adjustment upwards in premium rates appears necessary.

3. GEHA officials recently met with representatives of Mutual of Omaha and as a result of these conversations a proposal for the revision of the GEHA contract was made by the underwriter in a letter dated 20 June 1961 (Tab A). The estimated premium for the first eleven months of the current contract is \$1,223,629 and the estimated incurred claims for the same period are \$1,146,676. Of the estimated premiums the Civil Service Commission retains 4% as a reserve (\$48,945.16). The underwriter expects to retain 3% for State taxes and administrative expenses (\$97,890.32) which together with the estimated costs of claims comes to \$1,293,513.48. This leaves a clear loss of \$69,884.48 which in this case must be borne by the underwriter. In establishing the rates in the original contract beginning July 1960, the anticipated claims were underestimated. It has been found that in the major medical program the

claims by single individuals have been running 112% of premiums; females with non-dependent husbands 121% of premiums; and the family plan 99% of premiums. The experience for the low option plan has been favorable and no loss has been incurred on this plan. There has been a steady increase in hospitalization costs with notable increases in hospital charges, doctors' fees, and to a lesser extent in the price of drugs. This is reflected from the experience of the past six months which shows a rise in the amount of claims under the Major Medical plan.

4. It will be noted, as indicated in Tab B, that the proposed new premium rates will still be less than the premium rates of any comparable plan in the local area. It is very possible that the other Civil Service plans may have to increase their rates because of rising costs but this is not established as of this time.

5. Mutual of Omaha has proposed rate increases as follows: Single plan currently costing \$3.53 per month would be raised to \$5.64 per month. This, however, will result in a net increase to the employee from the present \$1.77 to only \$2.82. This will enable us to receive the full Government contribution, which because of our low premium rate, we are not receiving at the present time. The Family Plan rate would be raised from \$14.00 per month to \$15.80 per month, resulting in a net increase to the employee of \$1.50 per month. The premium then would be \$8.74, cost to the employee, instead of the present cost of \$7.24. The premium for a female employee with a non-dependent husband would be raised the same as the Family Plan rate. These rate changes apply only to the High Option Plan.

6. After full consideration of these factors and various statistics, the CSEA Board of Directors at the meeting 6 July 1961 passed a resolution to adopt these rate changes together with the increased benefits mentioned in Tab A. These increased benefits include certain services of a dentist, podiatrist, a liberalized surgical schedule, and a new lifetime maximum benefit of \$20,000. The Board further instructed the officers after receiving your concurrence to proceed to effect this new contract with the underwriter and to obtain the Civil Service Commission approval.

7. It is the recommendation of the GEHA Board of Directors that the action taken in the resolution passed at the Board of Directors meeting 6 July 1961 be approved.

SIGNED

Chairman, Board of Directors
GEHA

CONCURRENCES:

15/ [Redacted]
Deputy Director (Support)

14 July 1961
Date

15/ [Redacted]
General Counsel

14 July 1961
Date

15/ [Redacted]
Director of Personnel

12 July 1961
Date

The recommendation in Paragraph 7 is approved.

18 July 1961
Date

15/ [Redacted]
C. F. CABELL
General, USAF
Deputy Director of Central Intelligence

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AD/OS:RLB:skh (12 July 61)

TAB A

OF OMAHA



V. J. SKUTT, President

TAB
A

OMAHA, NEBRASKA

THE LARGEST EXCLUSIVE HEALTH & ACCIDENT COMPANY IN THE WORLD

June 20, 1961

STAT

[redacted] President
Government Employees Health Association
P. O. Box 463
Washington 4, D. C.

STAT

[redacted]
This will confirm our conversation of June 19 in regard to your group insurance program and the experience under that program during the first 11 months. The estimated premium for the period is \$1,223,629 and the estimated incurred claims for the same period are \$1,146,678. As you can see, this gives us an approximate loss ratio slightly in excess of 94 per cent; if we add to this the retention quoted the Civil Service Commission originally, which was slightly in excess of 8 per cent, the overall loss ratio will exceed our break-even point.

We have, of course, had an opportunity to review a full 24-month claim runout under your original program, and it has become rather obvious to us now that the primary reason for the rather high loss ratio is the very optimistic approach that we took to the rerating of the premium rates due to the interim experience that we had under the old contract. This rating did not properly reflect the claim lag of the previous coverages and, as a consequence, the new program was given credit for a loss ratio that actually existed at the time of the rating.

This matter, as you will recall, was discussed in our meeting on Monday. With these points in mind, considering the liberalizations made in the current contract, it becomes apparent that the present rates are inadequate not only for the current benefits but especially so when considering the increased benefits contemplated to

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June 20, 1961

become effective on November 1, 1961. In addition to the increased benefits, the steadily increasing cost of medical care, both in the hospital and by the medical profession, must be taken into consideration when we look to the future of the program.

As you know, other government programs providing major medical benefits either from first dollar or in conjunction with a base plan benefit have a premium rate in excess of \$19 per month for the family enrollment. This is also true of two of our own programs providing benefits equal to the high-option plan. Under these high-option plans the single employee rate is in excess of \$7 monthly per individual.

Effective November 1, 1961, we are recommending the following changes in the premium structure for your insurance program:

- | | |
|---|-----------------|
| 1. Self Only | \$ 5.64 monthly |
| 2. Self and Family | \$15.50 monthly |
| 3. Self and Family -
Female and Nondependent Husband | \$15.50 monthly |

As mentioned previously, the benefits under your current program have been broadened to include certain services of a dentist, podiatrist, a liberalized surgical schedule and a new lifetime maximum benefit of \$20,000. The new premium structure which has been suggested is, as you can see, considerably less expensive than the other high-option programs offered to Federal employees which provide major medical benefits.

It is the de-

sidered one of the most economical for your members. Even with these adjustments, when you take into consideration the liberalizations made, we feel that you have one of the top programs from the standpoint of protection and economy.

We will most certainly be looking forward to the reaction of your Board to these suggested adjustments and would like to

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volunteer our services if it is necessary to present any further facts to your Board justifying the new rate schedule or in your discussion with the Civil Service Commission.

Yours sincerely,



A. W. Randall
Vice President

AWR:ES

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RC'D-JB/BSO

TAB B

TAB 8
CURRENT HIGH OPTION RATES PER MONTH OF EXISTING PLANS

	<u>Single</u>	<u>Family</u>	<u>Single Employee's Share</u>	<u>Family Plan Share</u>
Aetna	6.76	17.46	3.94	10.70
Blue Cross	7.39	19.37	4.57	12.61
Group Health	9.90	25.76	7.08	19.00
*Foreign Service	3.42	13.48	1.71	6.74
NSA	7.35	19.31	4.53	12.55

RATES FOR GEHA

Present Rates	3.53	14.00	1.77	7.24
Proposed Rates	5.64	15.50	2.82	8.74

*\$35 deductible for each illness or accident and only 80% of hospital extras and surgical fees.